

PUBLIC DISCLOSURE

September 4, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

STONEHAMBANK, A CO-OPERATIVE BANK

CERT #26559

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<p>NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.</p>

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GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires the Massachusetts Division of Banks (“Division”) and the Federal Deposit Insurance Corporation (“FDIC”) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **StonehamBank, A Co-operative Bank** (“**StonehamBank**” or the “**Bank**”) prepared by the Division and the FDIC, the institution's supervisory agencies, as of **September 4, 2012**. The agencies evaluate performance in the assessment area as defined by the institution, rather than individual branches. The Division and FDIC rate the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00 and Part 345 of the FDIC’s Rules and Regulations.

INSTITUTION'S CRA RATING: This institution is rated “Satisfactory.”

An institution in this group has an adequate record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Lending Test:

The Lending Test is rated “**Satisfactory**”. This rating is supported by the following:

Loan-to-Deposit Ratio

The loan-to-deposit (“LTD”) ratio is more than reasonable (considering seasonal variations and taking into account lending-related activities) given the institution’s size, financial condition, and assessment area credit needs. The Bank’s average net LTD ratio over the last 13 quarters was 115.5 percent and compared favorably to similarly situated banks.

Assessment Area Concentration

A majority of the Bank’s home mortgage and small business loans, by number and dollar amount, were originated or purchased within its designated assessment area. During 2010 and 2011, 59.7 percent of home mortgage loans and 63.1 percent of small business loans, by number, were granted inside the assessment area.

Geographic Distribution

The Bank’s overall geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The Bank’s concentration of home mortgage loans in the area’s moderate-income geographies was reasonable. However, the Bank made a less than reasonable number and percentage of loans to small businesses within the area’s moderate-income census tracts during the review period.

Borrower Characteristics

The overall distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes. The Bank was above the aggregate market in percentage of home mortgage loans to low- and moderate-income borrowers in 2010. The Bank also responded to small business financing needs by making a reasonable number of loans to the assessment area's small businesses.

Response to Complaints

StonehamBank did not receive any CRA-related complaints during the period reviewed.

Community Development Test

The Community Development Test is rated "**Satisfactory**". This rating is supported by the following:

The institution's community development performance demonstrates adequate responsiveness to community development needs in its assessment area through qualified community development loans, investments, and services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's assessment area. This rating is supported by the following factors.

Community Development Loans

The number of community development loans (CDLs) is reasonable. The total number of CDLs granted since the previous examination was 29, and totaled approximately \$2.0 million. Of these 29 loans, 28 were granted to an organization which provides specialized transportation to individuals who are elderly or disabled. These services are primarily targeted to low- and moderate-income individuals.

Community Development Investments

The level of community development investments is adequate. Total qualified investments for this evaluation period amounted to approximately \$2.3 million. This figure includes the book value of two existing qualified investments and donations made to qualified organizations during the evaluation period.

Community Development Services

The level of the Bank's community development services is adequate. Bank officers gave financial expertise to various community development organizations. The Bank also participated in financial literacy initiatives and first-time homebuyer seminars.

SCOPE OF EXAMINATION

This evaluation assessed StonehamBank's CRA performance utilizing the Interagency Intermediate Small Institution ("ISI") procedures, as established by the Federal Financial Institutions Examination Council. These procedures require two performance tests: the Lending Test and the Community Development Test. The Lending Test is an analysis of the distribution of loans, and the Community Development Test is an evaluation of community development activities since the previous evaluation.

The Lending Test considered the Bank's home mortgage and small business lending activities. The Bank's most recent Report of Condition and Income ("Call Report"), dated June 30, 2012, indicated residential lending represented 61.7 percent and commercial lending represented 34.9 percent of the loan portfolio. Residential lending also represented the majority of loan volume during the review period. Based on this information, the Bank's performance in home mortgage lending carried more weight in arriving at the overall conclusions.

Data reviewed includes originated home mortgage loans reported on the Bank's Home Mortgage Disclosure Act ("HMDA") Loan Application Registers ("LARs") for full years 2010 and 2011. The LARs contain data about home purchase and home improvement loans, including refinances for 1-4 family and multi-family (five or more units) properties. The Bank's 2010 home mortgage lending performance was compared against 2010 aggregate lending data within the assessment area. Aggregate data includes the lending activity of all institutions subject to HMDA reporting in the defined assessment area. The evaluation focused on the Bank's lending performance in 2010, as aggregate data for 2011 was not yet available.

Small business loans were also reviewed for the same period. As an ISI, the Bank has the option of collecting and reporting small business lending data. The Bank opted to collect the data, but not to report it. The Bank's internal records indicated the institution originated 46 small business loans totaling \$11.0 million in 2010, and 57 small business loans totaling \$15.5 million in 2011. As the Bank is not required to report small business loan data, small business aggregate data was not used for formal comparison purposes. Instead, business demographics of the assessment area were used as a means of measuring the Bank's performance.

The Bank had no farm lending activity during the review period, so this product line was not included in the evaluation.

Although the total dollar amounts of loans are discussed under the Lending Test, the evaluation is primarily based on the Bank's lending performance by the number of loans originated or purchased during the review period. The number of loans correlates more closely with the number of individuals or businesses that obtained loans. Extremely large or small dollar loans could potentially skew conclusions.

The Community Development Test considered the number and dollar amount of CDLs, qualified investments, and community development services. The Community Development Test includes all community development activities in which the Bank was involved from May 26, 2009 through September 4, 2012.

Demographic information referenced in this evaluation was obtained from the 2000 United States ("U.S.") Census unless otherwise noted. Financial data about the Bank was obtained from the June 30, 2012 Call Report.

PERFORMANCE CONTEXT

Description of Institution

StonehamBank is a state-chartered financial institution headquartered in Stoneham, Massachusetts. In addition to its main office located at 80 Montvale Avenue in Stoneham, the Bank operates one other full-service banking location in Billerica, Massachusetts. Both offices are equipped with Automated Teller Machines (“ATMs”), and drive-up facilities. The Bank closed a branch in July 2010 in Stoneham, Massachusetts.

The Bank is a full-service financial institution offering deposit products such as checking, savings, and retirement accounts, as well as loan products such as home financing programs that include fixed- and adjustable-rate mortgage programs for the purchase, refinance, improvement, and construction of residential property. Additionally, the Bank offers consumer credit products including home equity lines of credit, home improvement loans, personal loans, and overdraft lines of credit.

StonehamBank offers commercial customers checking, savings, and money market accounts. Financing options include commercial real estate loans, term loans, lines of credit, construction loans, and permanent mortgages.

The Bank had total assets of \$444.3 million as of June 30, 2012. Assets increased approximately 7.2 percent since the prior evaluation. As of June 30, 2012, total loans stood at \$344.5 million, and represented 77.5 percent of total assets. Total loans increased by 6.9 percent since the prior evaluation. Table 1 illustrates the distribution of the Bank’s loan portfolio as of June 30, 2012.

Table 1 – Loan Portfolio Distribution as of June 30, 2012		
Loan Type	Dollar Amount \$(000s)	Percent of Total Loans
Construction and Land Development	10,354	3.0
Revolving Open-end 1-4 Family Residential	16,298	4.7
1-4 Family Residential	181,804	52.8
Multi-Family (5 or more) Residential	14,483	4.2
Total Residential Loans	222,939	61.7
Commercial Real Estate	88,036	25.5
Total Real Estate Loans	310,975	90.2
Commercial and Industrial	32,206	9.4
Closed-end Consumer Loans	1,374	0.4
Total Loans	344,555	100.0

Source: June 30, 2012 Call Report

As depicted in Table 1, the Bank’s loans are primarily concentrated in residential real estate, followed by commercial real estate. No financial or legal impediments exist that would limit or impede the Bank’s ability to meet the credit needs of the delineated assessment area.

Description of Assessment Area

The CRA requires the designation of one or more assessment areas within which a financial institution’s record of helping to meet the credit needs of its community will be evaluated. The Bank designated one assessment area which conforms to CRA requirements since it consists of

whole geographies, does not arbitrarily exclude low- and moderate-income areas, and does not reflect illegal discrimination. The Bank did not change its assessment area since the previous CRA evaluation.

Geographies

The Bank's assessment area includes the following Massachusetts municipalities: Billerica, Burlington, Lynnfield, Malden, Medford, Melrose, North Reading, Reading, Peabody, Saugus, Stoneham, Tewksbury, Wakefield, Wilmington, Winchester, and Woburn. The communities of Lynnfield, Peabody and Saugus are located in Essex County and the Peabody, MA Metropolitan Division ("MD") #37764. The remaining communities are located in Middlesex County and the Cambridge-Newton-Framingham, MA MD #15764. Both MDs fall within the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area ("MSA") #14460.

The analysis for the Geographic Distribution section of the Lending Test is based on the distribution of loans by income level of census tract, with emphasis on those designated low- and moderate-income. Each census tract is assigned an income level based on the median family income ("MFI") of the tract as compared to the MFI established for the MSA or MD in which the tract is located. The four income levels are defined as follows:

Low-Income: Less than 50 percent of MFI

Moderate-Income: At least 50 percent but less than 80 percent of MFI

Middle-Income: At Least 80 percent but less than 120 percent of MFI

Upper-Income: 120 percent or greater of MFI

The assessment area consists of 89 census tracts, of which 14 (15.7 percent) are designated as moderate-income, 64 (71.9 percent) as middle-income, and 11 (12.4 percent) as upper-income. There are no low-income census tracts in the Bank's assessment area.

According to 2000 U.S. Census data, the population of the assessment area is 479,695. Of the total assessment area population, 14.3 percent reside in moderate-income census tracts, 72.5 percent in middle-income census tracts, and 13.2 percent in upper-income census tracts.

Median Family Income Levels

The analysis under the Borrower Characteristics section of the Lending Test is primarily based on the distribution of home mortgage loans to borrowers of different incomes, using the same four income levels defined in the previous section. The analysis utilizes income data from the 2000 U.S. Census that was annually adjusted by the Department of Housing and Urban Development for inflation and other economic events. The estimated 2010 and 2011 MFI for Middlesex County was \$98,700 and \$105,000, respectively. The estimated 2010 and 2011 MFI for Essex County was \$83,900 and \$86,200, respectively.

The analysis of the Bank's home mortgage lending also includes comparisons to the distribution of assessment area families by income level. Table 2 shows this distribution based on 2000 U.S. Census data.

Table 2 – Number and Percentage of Families by Income Level		
Income Category	2000 U.S. Census	
	# of Families	% of Total Families
Low-Income	21,916	17.3
Moderate-Income	23,778	18.8
Middle-Income	32,824	26.0
Upper-Income	47,867	37.9
Total	126,385	100.0

Source: 2000 U.S. Census Data

Table 2 reveals that upper-income families represent the largest portion of total families. The percentages of families that fall into low- and moderate-income categories are very similar, with low-income representing the smallest portion of assessment area families. Families below the poverty level represent 17.7 percent of low-income families. This information suggests that a portion of low-income families are not likely to qualify for a residential mortgage, limiting opportunities to make loans to this segment of the population.

Housing Characteristics

Table 3 illustrates various housing-related statistics by census tract income level for the Bank's assessment area.

Table 3 – Selected Housing Characteristics by Income Category of the Geography							
Geography Income Level	Percentage						Median Home Value
	Census Tracts	Families	Housing Units	Owner-Occupied	Rental Units	Vacant Units	
Moderate	15.7	13.3	15.7	42.0	55.0	3.0	\$193,681
Middle	71.9	72.5	72.0	71.4	26.6	2.0	\$221,486
Upper	12.4	14.2	12.3	89.0	9.3	1.7	\$324,590
Total / Median	100.0	100.0	100.0	69.0	28.9	2.1	\$237,789

Source: 2000 U.S. Census Data

Among other statistics, Table 3 depicts the distribution of owner-occupied housing units by census tract income level. Although 15.7 percent of all housing units are located in moderate-income geographies, only 42.0 percent of them are owner-occupied. The relatively low percentage of owner-occupied housing units in moderate-income tracts somewhat limits the Bank's opportunity to make home mortgage loans in these areas.

The median housing value in the assessment area was \$237,789 as of the 2000 U.S. Census. Recent housing data obtained from *The Warren Group* reflects higher home values during the review period. Table 4 illustrates median home prices for the assessment area counties and the overall State.

Table 4 – Median Home Sales Prices		
County/State	2010	2011
Essex County	269,000	268,000
Middlesex County	361,271	360,000
Massachusetts	275,000	273,500

Source: The Warren Group

As shown in Table 4, median home prices were relatively stable in both counties and the state from 2010 to 2011. This information suggests that opportunities to make home mortgage loans to low- and moderate-income borrowers were somewhat limited due to relatively high median sales prices in the assessment area during the review period, especially in Middlesex County.

Unemployment Data

State and county unemployment rates were obtained from the Bureau of Labor Statistics. The 2010 annual unemployment rates were 8.8 percent in Essex County and 6.8 percent in Middlesex County. The 2011 annual unemployment rates were 7.8 percent in Essex County and 5.9 percent in Middlesex County. Essex County unemployment rates were slightly above while Middlesex County rates were below the State-wide rate for each year. While annual unemployment rates were not yet available for 2012, monthly data indicates that unemployment rates decreased in each county.

Business Demographic Data

According to *Dun & Bradstreet (D&B)* data, there were 34,925 non-farm businesses in the assessment area in 2010. Of total non-farm businesses 11.8 percent were in moderate-income tracts, 75.6 percent were in middle-income tracts, and 12.6 were in upper-income tracts. In terms of revenues, 75.5 percent of businesses had gross annual revenues (GARs) of \$1.0 million or less and 24.5 percent either had revenues greater than \$1.0 million or did not report GAR information.

In 2011 there were 49,514 non-farm businesses in the assessment area, of which 11.9 percent were in moderate-income tracts, 75.1 percent were in middle-income tracts, and 13.0 were in upper-income tracts. Also, 67.0 percent of businesses had GARs of \$1.0 million or less and 33.0 percent either had revenues greater than \$1.0 million or did not report GAR information.

Competition

StonehamBank operates in a highly competitive lending environment. The Bank faces competition from large national and regional banks, mortgage companies, community banks, and credit unions. Residential lending market share reports for 2010 indicate 394 lenders reported 32,091 originations or purchases totaling approximately \$8.9 billion in the assessment area. The top 15 home mortgage loan originators consisted of large mortgage companies, national or regional banks, two local mortgage companies, and a local bank. StonehamBank was ranked 16th in the assessment area capturing 1.4 percent of the market share. The remaining 15 institutions accounted for 58.1 percent of the market share.

Competitors operating within the Bank's assessment area include Salem Five Mortgage Company, LLC.; Mortgage Master, Inc.; Leader Bank; Bank of America, N.A.; JPMorgan Chase Bank, N.A.; Ally Bank (formerly GMAC Bank); GMAC Mortgage LLC.; Wells Fargo Bank, N.A.; Wells Fargo Funding, INC.; and Sovereign Bank.

Community Contacts

As part of the evaluation process, third parties active in community affairs in the assessment area are contacted to assist in assessing the housing and general banking needs of the community. Relevant information obtained from such sources helps to determine whether local financial institutions are responsive to the credit and service needs of their communities and what further

opportunities, if any, are available. For purposes of this evaluation, information provided by one such contact was referenced in preparing this evaluation. The community contact was conducted with a local housing authority. The contact addressed the need for volunteers who would be willing to utilize their financial expertise to shape financial literacy programs in ways that fit their clients' needs, including foreclosure prevention and home financing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The Lending Test considers the Bank's performance pursuant to the following criteria: LTD ratio; assessment area concentration; geographic distribution of loans; lending to borrowers of different incomes and businesses of different sizes; and the Bank's record of taking action in response to CRA complaints. Overall, the Bank's performance under the Lending Test is "Satisfactory." This rating indicates that StonehamBank's lending performance demonstrates adequate responsiveness to the credit needs of the assessment area.

Loan-to-Deposit Analysis

The LTD ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs. The Bank's average net LTD ratio over the last 13 quarters was 115.5 percent. Loan growth in 2009 and 2010 resulted in an increasing LTD ratio. However, this growth stabilized in 2011 and 2012 while deposits increased. As a result, the current LTD ratio of 108.7 percent is lower than the review period average.

The Bank's net LTD ratio was compared to the LTD ratios of three other locally based, similarly situated depository institutions, as of June 30, 2012. The institutions selected are all headquartered in Middlesex County, have assets between \$430 million and \$530 million, and are primarily residential lenders. StonehamBank's average quarterly net LTD ratio was substantially higher than the ratios of the other institutions during the review period. Table 5 presents this comparison.

Table 5 – Net Loan-To-Deposit Comparison		
Institution	Asset Size \$('000) as of 6/30/2012	Average Net LTD Ratio 6/30/2009 – 6/30/2012
StonehamBank	444,253	115.5
Winchester Savings Bank	529,543	74.8
The Savings Bank	453,976	64.7
Eagle Bank	437,174	47.3

Source: June 30, 2009 – June 30, 2012 Call Reports

Furthermore, the Bank sold a significant portion of its residential mortgages originated during the review period. This strategy had a decreasing effect on the LTD ratio, yet the Bank still maintained a high ratio. This further supports the Bank's strong performance under this criterion.

Comparison of Credit Extended Inside and Outside of the Assessment Area

Overall, a majority of the Bank's residential and small business loans by number and dollar amount were inside the designated assessment area. The analysis includes both residential lending and small business lending. Management indicated the Bank's strategic plan is to grow their commercial portfolio going forward. For purposes of this evaluation, however, more weight was placed on residential lending based on the composition of the Bank's loan portfolio and the volume of loans generated within each product line.

Home Mortgage Lending

StonehamBank originated a majority of home mortgage loans inside its assessment area in 2010 and 2011. Table 6 portrays the Bank's record of extending home mortgage loans inside and outside the assessment area during the review period.

Table 6 – Distribution of Residential Loans Inside and Outside the Assessment Area										
Year and Loan Purpose	Number of Loans					Dollars in Loans \$('000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
2010										
Purchase	86	41.4	122	58.6	208	21,310	43.1	28,155	56.9	49,465
Home Improvement	4	100.0	0	0.0	4	130	100.0	0	0.0	130
Refinance	383	67.3	186	32.7	569	86,157	62.5	51,645	37.5	137,802
Total	473	60.6	308	39.4	781	107,597	57.4	79,800	42.6	187,397
2011										
Purchase	81	42.2	111	57.8	192	20,639	40.4	30,489	59.6	51,128
Home Improvement	1	100.0	0	0.0	1	70	100.0	0	0.0	70
Refinance	214	67.9	101	32.1	315	49,635	64.9	26,861	35.1	76,496
Total	296	58.3	212	41.7	508	70,344	55.1	57,350	44.9	127,694
Total HMDA	769	59.7	520	40.3	1,289	177,941	56.5	137,150	43.5	315,091

Source: 2010 and 2011 HMDA LARs

As shown in Table 6, the Bank made 59.7 percent of total loans by number and 56.5 percent by dollar amount inside the assessment area. The concentration of loans inside the assessment area declined slightly from 2010 to 2011.

Additional analysis of home mortgage loans inside the assessment by loan purpose was also performed. The Bank originated a majority of its home purchase loans outside of the assessment area each year. Refinance loans represented the largest portion of loans within the assessment area in each year. While the Bank decreased the number of refinance loans from 2010 to 2011, the percentage of refinance loans inside the assessment area remained stable. The Bank made all of its home improvement loans inside the assessment area in both 2010 and 2011.

StonehamBank was ranked 16th out of 394 HMDA-reporting lenders in the assessment area in 2010, capturing approximately 1.4 percent of the market share. The vast majority of institutions ranked higher than the Bank were mortgage companies or large national or regional banks. Given the institution's size, branch structure, financial condition, and assessment area this ranking supports the Bank's satisfactory performance under this criterion

Small Business Lending

The Bank made a majority of small business loans by number and dollar amount inside the assessment area during the review period. Table 7 shows the Bank's record of extending small business loans inside and outside the assessment area.

Table 7– Distribution of Small Business Loans Inside and Outside the Assessment Area										
Year	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2010	31	67.4	15	32.6	46	7,913	72.0	3,080	28.0	10,993
2011	34	59.6	23	40.4	57	7,530	48.7	7,943	51.3	15,473
Total	65	63.1	38	36.9	103	15,443	58.4	11,023	41.6	26,466

Source: 2010 and 2011 Small Business Loan Records

As shown in the Table 7, the Bank made 63.1 percent of total small business loans inside the assessment area during 2010 and 2011. Despite a slight decline by percentage in 2011, the Bank increased the volume of loans originated inside the assessment area in 2011. By dollar amount, approximately \$15.4 million, or 58.4 percent, were within the assessment area during 2010 and 2011.

Geographic Distribution

Overall, the geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the assessment area. Greater emphasis was placed on the Bank's level of lending in the assessment area's moderate-income census tracts. Although the overall distribution is reasonable, there was minimal small business lending in the area's moderate-income tracts. The assessment area does not contain any low-income census tracts. The following sections discuss the Bank's performance under this criterion with regard to each product line.

Home Mortgage Lending

The distribution of the Bank's home mortgage lending reflects reasonable dispersion throughout the assessment area. Table 8 presents the Bank's home mortgage lending performance by number of loans in 2010 and 2011, as well as 2010 aggregate market data. Table 8 also includes the percentage of owner-occupied housing units for each census tract income level for comparison purposes.

Table 8 – Distribution of Home Mortgage Loans by Census Tract Income Level						
Census Tract Income Level	% of Total Owner-Occupied Housing Units	2010 Aggregate Lending Data (% of #)	2010 Bank		2011 Bank	
		%	#	%	#	%
Moderate	9.6	7.9	11	2.3	13	4.4
Middle	74.6	73.5	414	87.5	252	85.1
Upper	15.8	18.6	48	10.2	31	10.5
Total	100.0	100.0	473	100.0	296	100.0

Source: 2000 US Census Data, 2010 and 2011 HMDA Data

In 2010, the Bank's lending within the moderate-income tracts at 2.3 percent was lower than aggregate lending at 7.9 percent. The Bank's performance increased in 2011, with 4.4 percent of loans within the moderate-income census tracts. Similarly, the Bank was below aggregate lending in upper-income census tracts. The Bank's two branches are located within middle-income census tracts, within which the Bank is performing at a much higher percentage compared to aggregate lending data. The lack of a branch presence in the moderate- or upper-income tracts contributes to the Bank's lower concentration of loans in these tracts compared to the aggregate market.

Geographic distribution by loan purpose was also analyzed. In 2010, the Bank originated three purchase, one home improvement and seven refinance loans in moderate-income census tracts. In 2011, the Bank originated five home purchase loans and eight refinance loans in moderate-income census tracts. There was an increase in both purchase and refinance loans from 2010 to 2011. The Bank is trending upward in the number of originations within moderate-income tracts. This reflects positively on the Bank's performance under this criterion.

The distribution was also analyzed by the number of tracts in which originations occurred in each year. In 2010, the Bank originated loans in 7 of the 14 moderate-income tracts, 58 of the 64 middle-income tracts, and 9 of the 11 upper-income tracts. In 2011 the Bank originated loans in 6 of the 14 moderate-income tracts, 55 of the 64 middle-income tracts and 9 of the 11 upper-income tracts. The Bank made loans in a significant majority of the assessment area's census tracts.

Market data for 2010 indicates the Bank ranked 44th for all home mortgage loans reported in the assessment area's moderate-income tracts. This ranking is reasonable considering the lack of a branch presence and the high level of competition in the moderate-income tracts.

Small Business Lending

The overall geographic distribution of the Bank's small business loans is reasonable; however, the performance within the moderate-income tracts reflects less than reasonable performance. Table 9 illustrates the Bank's small business lending activity in 2010 and 2011 by census tract income level, as well as the breakdown of businesses for comparison purposes.

Table 9 – Distribution of Small Business Loans by Census Tract Income Level						
Census Tract Income Level	2010 % of Businesses	2011 % of Businesses	2010 Bank		2011 Bank	
			#	%	#	%
Moderate	11.8	11.9	1	3.2	1	2.9
Middle	75.6	75.1	28	90.3	31	91.2
Upper	12.6	13.0	2	6.5	2	5.9
Total	100.0	100.0	31	100.0	34	100.0

Source: D&B 2010 and 2011 Business Data, 2010 and 2011 Small Business Loan Records

In 2010, the Bank's lending within moderate-income geographies at 3.2 percent (represented by 1 loan) was substantially less than the percentage of businesses in moderate-income geographies at 11.8 percent. The Bank also made only 1 loan in moderate-income tracts in 2011, with 2.9 percent of small business loans made within these geographies. The Bank had limited penetration in the area's moderate-income tracts despite demographic data showing business lending opportunities. While the lack of a branch presence in these tracts somewhat mitigates the Bank's performance, it does not fully explain the limited distribution of loans in moderate-income geographies.

Borrower Characteristics

Overall, the distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. The overall conclusion is based on the excellent distribution of home mortgage loans to low- and moderate-income individuals, and the Bank's reasonable performance in lending to businesses with GARs under \$1 million. Despite the excellent penetration in home mortgage lending, the small business lending performance was

not strong enough to warrant excellent penetration overall. The following sections discuss the Bank's performance under this criterion with regard to each product line.

Home Mortgage Lending

The Bank's performance for home mortgage lending by borrower income level is excellent. Borrower incomes for loans reported in 2010 and 2011 were compared to the MFIs for the Cambridge-Newton-Framingham, MA MD and Peabody, MA MD for each year. Table 10 shows the Bank's loans by borrower income level in 2010 and 2011. Table 10 also includes the distribution of families by income level and 2010 aggregate market data for comparison purposes.

Table 10 – Distribution of Home Mortgage Loans by Borrower Income Level						
Income Level	% of Total Families	2010 Aggregate Lending Data (% of #)	2010 Bank		2011 Bank	
			#	%	#	%
Low	17.4	4.7	36	7.6	35	11.8
Moderate	18.8	18.7	131	27.7	79	26.7
Middle	25.9	27.9	156	33.0	101	34.1
Upper	37.9	33.6	145	30.6	73	24.7
NA	0	15.1	5	1.1	8	2.7
Total	100.0	100.0	473	100.0	296	100.0

Source: 2000 US Census, 2010 and 2011 HMDA LAR, 2010 HMDA Aggregate Data

The Bank originated 7.6 percent and 11.8 percent of all assessment area loans to low-income borrowers in 2010 and 2011, respectively. The Bank's performance in 2010 was above the aggregate's performance. The Bank's performance in 2011, by percentage, represents improvement from an already strong performance in 2010. This trend supports the Bank's excellent performance.

The Bank originated 27.7 percent and 26.7 percent of its loans to moderate-income borrowers in 2010 and 2011, respectively. The Bank's percentage in 2010 significantly surpassed the aggregate's percentage at 18.7 percent. Although StonehamBank's overall home mortgage lending decreased in 2011, the strong percentage of loans made to moderate-income borrowers was consistent. This performance was also higher than the percentage of moderate-income families in the assessment area.

The 2010 market share reports indicated the Bank ranked 11th out of 282 lenders in loans to moderate-income borrowers in the assessment area, with a market share of 1.8 percent. StonehamBank's market share to low-income borrowers was comparable to its moderate-income levels, with a 10th place ranking within the assessment area. These rankings exceed the Bank's rank for overall lending in the assessment, which reflects positively on the Bank.

The Bank originated a significant number of loans through MassHousing programs. This activity appears to directly correlate with the Bank's strong performance in originating loans to low- and moderate-income borrowers. The Bank received a written commendation from the Massachusetts Housing Finance Agency regarding the Bank's increased originations through these programs in 2012. Of particular note, the Bank originated MassHousing Purchase/Rehab mortgages. This product is designed to finance borrowers purchasing properties in communities heavily affected by foreclosures.

Small Business Lending

The distribution of the Bank's small business loans by business revenue level is reasonable. Table 11 illustrates the number of the Bank's small business loans in the assessment area by business revenue level. Table 11 also shows the percentage of total businesses in the assessment area by business revenue level for comparison purposes. A small business is defined as one with GARs of \$1 million or less for CRA purposes.

Table 11 – Distribution of Small Business Loans by Gross Annual Revenues (GAR)						
GAR \$(000s)	2010 % of Total Businesses	2011 % of Total Businesses	2010 Bank		2011 Bank	
			#	%	#	%
≤ \$1,000	75.5	67.0	15	48.4	18	52.9
> \$1,000 or N/A	24.5	33.0	16	51.6	16	47.1
Total	100.0	100.0	31	100.0	34	100.0

Source: D&B 2010 and 2011 Business Data, 2010 and 2011 Small Business Loan Records

StonehamBank made 15 loans to small businesses in 2010, representing 48.4 of all small business loans. In 2011, the Bank extended 18, or 52.9 percent, of its small business loans inside the assessment area to small businesses. This performance was below the percentage of total businesses within the assessment area with GAR of \$1 million or less in each year. The Bank's improving trend in 2011, by number and percentage, supports the rating.

Response to CRA Complaints

The Bank received no CRA-related complaints during the evaluation period. The Bank maintains adequate procedures to handle all incoming complaints, including those relating to its CRA performance.

COMMUNITY DEVELOPMENT TEST

Overall, StonehamBank's community development performance demonstrates an adequate responsiveness to the community development needs of its assessment area. The Bank helped meet community development needs within the assessment area through CDLs, qualified investments and grants, and community development services.

Community Development Loans

For the purpose of this evaluation, a community development loan is defined as a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the bank for consideration under small business or home mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.

The Bank's level of CDLs is reasonable. The Bank made 29 loans during the evaluation period totaling just over \$2.0 million. Community development loans represent 0.6 percent of net loans as of the June 30, 2012. A significant majority of community development loans (28 of 29) were granted to the same organization. This organization provides community services targeted to low- and moderate-income individuals. The remaining loan was an extension of a Massachusetts

40B development loan providing affordable housing to the assessment area. The Bank received credit for 14 CDLs, totaling \$966,152 in 2010, and 15 loans, totaling approximately \$1.1 million, in 2011.

In April 2010, the Bank granted a line of credit for \$500,000 to a company that provides transportation services to adolescents and adults throughout the assessment area with various disabilities. These services are primarily provided to low- and moderate-income individuals. Approximately 80 percent of the organization's funding comes from the Commonwealth of Massachusetts and the federal government. State and federal funding allows the organization to provide these specialized services at low or no costs to assist needy individuals. Services include providing transportation to the elderly and disabled population to attend medical appointments.

Also in 2010, the Bank granted 13 loans totaling \$466,152 to this same organization for the purchase of new vans. This organization has contracts with local Elder Service organizations located within the Bank's assessment area to provide low-cost transportation for financially needy individuals with handicaps.

In 2011, the Bank granted an additional 14 loans totaling \$513,295 to the above organization. Many of the residents throughout the assessment area continue to receive low-cost transportation through this organization.

Also in 2011, the Bank granted a loan extension for a previous development loan in support of a Chapter 40B project in Billerica. The loan provided acquisition and construction financing for a 132-unit subdivision with 36 units designated as affordable. The extension provided financing for the final phase of the project. The pro rata share for the affordable units totaled \$558,569.

Community Development Investments

A qualified investment, for the purposes of this CRA evaluation, is a lawful investment, deposit, membership share, or grant that has community development as its primary purpose.

The level of the Bank's community development investments is adequate. Total qualified investments for this evaluation period amounted to approximately \$2.3 million, which represents 0.5 percent of total assets. This figure includes the book value of two existing qualified investments and donations made to qualified organizations during the review period.

Prior Period Investments

CRA Qualified Investment Fund - This fund invests in pools of loans made to low- and moderate-income borrowers. The Fund targets areas in Massachusetts including specific communities within the assessment area. As of July 31, 2012, the book value of the Bank's investment was approximately \$1.1 million.

Access Capital Strategies Community Investment Fund - This group is a secondary market purchaser of private placement securities backed by affordable housing, community development, and small business loans. The Bank's securities are backed by residential mortgage loans made to low- and moderate-income borrowers for properties located in Essex and Middlesex counties, including specific communities located in the Bank's assessment area. StonehamBank's investment had a book value of \$988,832 as of July 31, 2012.

Qualified Grant Investments

StonehamBank demonstrated a commitment to assisting the assessment area by making contributions and donations towards community based initiatives, with a strong emphasis on community services targeted to low- and moderate-income individuals.

From May 27, 2009 through July 31, 2012, the Bank contributed \$184,076 to qualified organizations and programs. Table 12 illustrates the community development categories of the Bank's qualified grants. These grants were responsive to the community development needs of the assessment area. Table 12 details the Bank's qualified grants and donations during the review period.

Table 12 – Community Development Grants and Donations												
Activity Year	Qualifying Category										Totals	
	Affordable Housing		Community Services*		Economic Development		Revitalization or Stabilization**		Neighborhood Stabilization Projects			
	#	\$ (000)	#	\$ (000)	#	\$ (000)	#	\$ (000)	#	\$ (000)	#	\$ (000)
06/1/2009-12/31/2009	5	5,000	16	41,050	0	0	0	0	0	0	21	46,050
2010	6	5,600	41	40,371	0	0	0	0	0	0	47	45,971
2011	6	6,000	33	43,380	1	3,500	0	0	0	0	40	52,880
1/1/2012-6/30/2012	0	0	33	39,175	0	0	0	0	0	0	33	39,175
Total	17	16,600	123	163,976	1	3,500	0	0	0	0	141	184,076

Source: Bank Records

*Targeted to Low- or Moderate-Income Individuals

** In Low- or Moderate-Income, Disaster, Distressed, or Underserved Geographies

As shown in Table 12, the Bank made \$184,076 in qualified community development grants over the evaluation period. The following is a sample of organizations that received qualified donations from the Bank.

- A non-profit program that assists low-income elders with financial tasks, including bill payment, budgeting, checkbook balancing, and general financial literacy.
- A non-profit organization provides household furnishings to people in need (low- or moderate-income). Recipients are primarily battered women and their children, older people who were abandoned, and others who lost their homes and possessions for various reasons.

- A non-profit organization that provides financial counseling and educational programs for families and individuals. Services provided by this organization include seminars on budgeting, money management, and credit history. These services primarily benefit low- and moderate-income individuals.

Community Development Services

The CRA regulation defines a community development service as an activity having community development as its primary purpose and related to the provision of financial services. The level of the Bank's community development investments is adequate. Detailed below are the Bank's qualified community development services.

Involvement in Community Organizations

Mystic Valley Elder Services (MVES) – The Bank's President and Chief Executive Officer (CEO) serves on the Board of this organization. MVES provides a broad range of services to elders. Funding comes from the federal government and donations. These services include meals, home care, financial literacy, basic budgeting, bill management, and general advocacy. The majority of the people served are low- or moderate-income.

Woburn Boys & Girls Club – The Bank's Executive Vice President serves on the Board of this non-profit organization. The organization serves youths in Woburn and surrounding communities. The organization provides educational, social, and athletic programs to all children, regardless of their ability to pay. The majority of the children receiving services are from low- or moderate-income families.

Blanket Fund – The Bank's Senior Vice President is the Principal of this organization. This organization concentrates on providing resources to local churches and shelters for the homeless. The Blanket Fund is affiliated with Housing Families, which is located in Malden.

Billerica Boys & Girls Club – The Bank's Vice President serves on the Board of this non-profit organization. The organization serves youths in Billerica and surrounding communities. The organization provides educational, social, and athletic programs to all children, regardless of their ability to pay. The majority of children receiving services are from low- or moderate-income families.

Educational Seminars

StonehamBank hosted annual first-time homebuyer seminars that included speakers from MassHousing, the legal field, real estate firms, home inspection companies, appraisal firms, and representatives from the local housing authority. Staff from the Bank provided information concerning the pre-application process, the application process, and the underwriting process. Ten seminars were conducted during the evaluation period.

In addition, Stoneham Bank conducted four business seminars during the period. These seminars provided basic guidance to small businesses, including very small and start-up businesses.

APPENDIX A

Massachusetts Division of Banks Fair Lending Policies and Procedures Review

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 2.3-101.

A review of the Bank's public comment file indicated that the Bank received no complaints pertaining to the institution's CRA performance since the previous examination. The Bank has a written Fair Lending Policy. Included in this policy are the Bank's efforts to eliminate disparate treatment in all aspects of lending, as well as to provide guidance to Bank employees on how to comply with fair lending policies and procedures. The Bank provides fair lending training through internal training programs as well as seminars available through outside services and sources. Fair lending training is provided to all new employees and all existing employees at least annually. Management develops training programs that cover all aspects of the lending process.

MINORITY APPLICATION FLOW

A review of residential loan applications was conducted in order to determine the number of HMDA-reportable credit applications the Bank received from minority applicants. For the period reviewed, the Bank received a total of 25 HMDA reportable mortgage applications from racial minority groups within its assessment area. As indicated below, the Bank's performance in 2010 is below the 2010 aggregate data. Refer to the following table for additional information.

Minority Application Flow								
Race	StonehamBank 2010		2010 Aggregate Data		StonehamBank 2011		Bank Total	
	#	%	#	%	#	%	#	%
<i>American Indian/ Alaska Native</i>	0	0.0	34	0.1	0	0.0	0	0.0
<i>Asian</i>	7	1.3	2,418	5.8	8	2.1	15	1.6
<i>Black/ African American</i>	4	0.7	420	1.0	3	0.8	7	0.8
<i>Hawaiian/Pacific Islander</i>	0	0.0	31	0.1	0	0.0	0	0.0
<i>2 or more Minority</i>	0	0.0	11	0.1	0	0.0	0	0.0
<i>Joint Race (White/Minority)</i>	1	0.2	433	1.0	2	0.5	3	0.3
Total Minority	12	2.2	3,347	8.1	13	3.4	25	2.7
<i>White</i>	523	96.3	29,222	70.8	358	95.0	881	95.8
<i>Race Not Available</i>	8	1.5	8,735	21.1	6	1.6	14	1.5
Total	543	100	41,304	100	377	100	920	100
Ethnicity								
<i>Hispanic or Latino</i>	3	0.6	449	1.1	4	1.1	7	0.8
<i>Not Hispanic or Latino</i>	529	97.4	31,609	76.5	364	96.5	893	97.1
<i>Joint (Hispanic/Latino/Not Hispanic/Latino)</i>	3	0.6	330	0.8	2	0.5	5	0.5
<i>Ethnicity Not Available</i>	8	1.4	8,916	21.6	7	1.9	15	1.6
Total	543	100	41,304	100	377	100	920	100

Source: 2010 and 2011 HMDA Data

According to the Bank's HMDA data from 2010 and 2011, of the 25 applications received by the Bank, 20 or 80 percent were originated. In comparison, the aggregate for 2010 showed 56.2 percent of its minority applications result in originations.

The Bank's minority application flow with regard to ethnic minorities is reasonable, comparable with the aggregate and shows a positive trend. Racial minority applications are below the aggregate, but also show a positive trend, and taking in to account the superior approval rate are considered adequate.

APPENDIX B

General Definitions

GEOGRAPHY TERMS

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (“HUD”) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income. These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income. These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 80 Montvale Avenue, Stoneham, MA 02180."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.